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STATE FOR NEA/ARP
TREASURY FOR DAS AHMED SAEED AND JONATHAN ROSE

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SUBJECT: AMBASSADOR CALLS ON HEAD OF KUWAIT STOCK EXCHANGE

¶1. (SBU) Summary: On December 5, Ambassador paid a courtesy call on the new Director General of the Kuwait Stock Exchange (KSE) Saleh Al-Falah. Ambassador and the DG discussed the pending creation of a capital markets authority and Kuwait's overall economic health. The meeting was also attended by the Head of KSE Technical Department, Ms. Wafa Al-Rasheed, and Econoff (notetaker). The call took place amidst a sharp drop in stock prices following a decision by KSE's Market Committee to withdraw voting rights from stocks held by the Al-Kharafi Group, a juggernaut of the KSE, in ten listed companies. The move banned Kharafi from trading its shares in these companies for six years. The complaint filed with the Market Committee alleged that the Al-Kharafi Group had failed to conform with market regulations in its apparent efforts to acquire a controlling interest in these companies without making the required disclosure. End Summary.

Market Volatility: "People need time"

¶2. (SBU) During the courtesy call, DG Salah Al-Falah, who is described by his colleagues as "a strong Director who will apply the law," acknowledged that his transition following the resignation of his predecessor in October has been anything but routine. He said the KSE is working hard to please the majority while ensuring that everything is done according to regulations. "People need to be educated from the legal point of view," he added, "but this takes time." Referring to KSE's decision to move against the Kharafi Group, he said that "you must go step-by-step, and this was more than they (the investor) could swallow at one time."

¶3. (SBU) Al-Falah, who has over 20 years of banking experience and served as Director of Investments at the Kuwait Investment Authority from 2000-2003, said he was called out of retirement by the Prime Minister and appointed DG in October 2006. Al-Falah oversees a staff of 220 employees, about 150 of whom are Kuwaiti, whom he described as experienced professionals who have been through some tough times over the last 25 years.

Creation of a Capital Market Authority

¶4. (SBU) When asked about his plans for KSE over the next year, Al-Falah noted that KSE is ready for regulatory changes, including a more robust financial disclosure policy and the creation of an independent regulatory body, but Parliament has different priorities. Al-Rasheed explained that there are currently two competing proposals for the

creation of a capital market authority, one from KSE and another from the Ministry of Commerce and Industry (MOCI). Although both plans adhere to the principles of the International Organization of Securities Commissions (IOSCO), KSE's proposal is based on the English system while MOCI,s is based on a U.S. model. Parliament is not scheduled to discuss this issue until September 2007, Al-Falah said, and the confusion caused by the two proposals will probably create additional delays.

Economy is Strong But Sensible Management Key to Success

15. (SBU) Al-Falah noted that the country is in good financial shape but cautioned against "political interference," as exemplified by the current and highly charged debate on consumer debt, which has a number of MPs calling on the government to forgive consumer debt. Al-Saleh said the number of infrastructure projects to be tackled in Kuwait would significantly reduce Kuwait's budget surplus.

Bio Note

16. (U) Al-Falah graduated with a BA in Trade from the Arab University in Beirut in 1970. He returned to Kuwait for post-graduate degrees in development planning and banking studies. He joined Bank of Kuwait and the Middle East in 1974 and rose through the ranks to become Head of Domestic Corporate Banking by 1980, Deputy General Manager from 1980-1981, General Manager from 1981-1993, and Chairman and Managing Director from 1993-2000. Al-Falah was also Chairman of the Kuwaiti Banks Committee from 1998-2000 and Deputy

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Chairman of the Bank of Bahrain and Kuwait from 1998-2000. He then became Managing Director of the Kuwait Investment Authority where he remained from 2000-2003 until he retired. Al-Falah was born on January 8, 1946 and is married. He speaks Arabic and English.

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